

### List of Exhibits

- EXHIBIT 1 National Women's Business Council, Annual Report to the President and Congress (1992).
- EXHIBIT 2 National Foundation of Women Business Owners, *Financing the Business: A Report on Financial Issues from the 1992 Biennial Survey of Women Business Owners* (1993).
- EXHIBIT 3 National Foundation of Women Business Owners and Dun & Bradstreet Information Services, *Women-Owned Businesses: Breaking the Boundaries The Progress and Achievement of Women-Owned Businesses*.
- EXHIBIT 4 National Women's Law Center, *Discrimination Against Women in Education: Why Affirmative Action for Women in Education Remains Essential* (Sept. 1995).
- EXHIBIT 5 National Women's Law Center, *Two Hundred Years of Continuing Discrimination: Why We Need Affirmative Action for Women* (May 1995).

# **National Women's Business Council**

## **1992 Annual Report to The President and Congress**

### ***EXECUTIVE SUMMARY***

*This summary includes the complete text of the 1992 recommendations to the President and Congress which have resulted from the Council's investigations. The implementation of these recommendations is a top priority of the National Women's Business Council, its supporters, and its constituency of women business owners.*

*The remainder of the report has been summarized. The complete annual report, as well as copies of all hearing transcripts and survey data, is available at the Washington office of the Council. For information on how these may be obtained, contact:*

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## ***CAPITAL—THE KEY TO GROWTH***

Three years of Council investigations into the status of women-owned businesses left no doubt that the foremost barrier women perceived was that of access to capital. At every level—from the small, home-based business operating on creativity and sheer nerve to the expanding corporation preparing to go public—lack of access to adequate funding was the constant concern and the overwhelming reason cited for failures.

The seriousness of this concern led the Council to focus this year on the problem of access to capital, and the search for remedies to the problem. The results of our investigations led us to change the colors of our logo to the colors of U.S. currency: It is that important.

### **THE PROBLEM THAT EXISTS AT EVERY LEVEL**

Three levels of women-owned businesses come under Council scrutiny:

- The start-up business or small home-based or service business that is still struggling to establish a foothold in the marketplace.
- The "mezzanine" business, established and running well, but needing capital for growth. Recent studies have shown that the number of woman-owned businesses in this phase is increasing at a far greater rate than businesses in general.
- The established larger businesses, many of which are capital-intensive, seeking major expansion funding. The number of women-owned firms in capital-intensive sectors grew dramatically in the 1980's, and should continue to expand rapidly if sources of capital increase.

The list of concerns and barriers at all three levels is strikingly similar. We therefore request that the Congress and the new administration give this common problem—access to capital—their immediate and most serious attention.

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## **1992 RECOMMENDATIONS**

As a result of our investigations over a three year period, an analysis of the information that has been gathered, and our search for viable methods of removing the greatest barriers to women business owners, the National Women's Business Council requests that the President and Congress act immediately upon the recommendations that follow. The Council has focused on specific areas which we have concluded will be most beneficial to the largest number of women business owners at all three levels: start-up, mezzanine and investment-level.

### **DEFINITION**

It is ironic that one of the barriers to development of programs facilitating access to capital for women business owners and the inclusion of women-owned businesses in currently recognized special categories is the lack of agreement on what constitutes "woman-owned." There is currently no agreed-upon definition in general usage across all government agencies, even at the federal level. The collection of accurate data concerning women-owned businesses has been virtually impossible.

The Council, in response to expressions of concern from public as well as private sources, has studied the varying definitions of women-owned businesses, and has concluded that the definition outlined in Recommendation #1 best meets the needs of both government agencies and the businesses affected.

### **BANKING**

The recommended legislation dealing with banking practices outlined in Recommendation #2 is presented as a response to the recommendations of the experts involved in the Access to Capital Symposium as well as the testimony gathered at NWBC hearings. It will affect all women-owned businesses, but is particularly focused on the mezzanine level businesses seeking capital.

### **INVESTMENT**

The larger woman-owned firm is often seeking the level of capitalization generally not available through a standard bank loan, and may not currently have access to the type of venture capital required. Recommendation #3 deals with this problem, and is a direct result of testimony at hearings and expert recommendations from the Symposium.

### **PROCUREMENT**

Today, the U.S. Small Business Administration estimates that over one-third of all U.S. businesses are woman-owned. Despite this, only 1.5% of all federal procurement dollars are awarded to woman-owned businesses. The elimination of this dramatic inequity is addressed in Recommendation #4.

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## **RECOMMENDATION #1**

### ***A Standard Definition of "Woman-Owned" Business***

There is currently no standard definition of "woman-owned" business for federal government usage. The NWBC recommends the following wording for all federal government purposes. (Please note that the SBA is currently promulgating regulations along these lines.)

#### **DEFINITION**

A woman-owned business is a business concern with at least 51 percent unconditional ownership and control by a woman or women. Such unconditional ownership must be reflected in the concern's ownership agreement; and the woman, or women, must manage and operate the business on a daily basis.

#### **JOINT VENTURE AGREEMENTS**

A woman-owned business must control the performance of the contract awarded to the joint venture for the venture to qualify as a woman-owned business.

#### **SUBCONTRACTING**

A business concern shall not be qualified as a woman-owned business unless it meets the criteria mentioned above and it controls a significant portion of its contract with its own facilities and personnel.

#### **CONTROL AND MANAGEMENT**

An applicant concern's management and daily business operations must be controlled by a woman or women. An applicant concern must be managed on a full-time basis by one or more women. The U.S. Small Business Administration will consider, on a case-by-case basis, the actual management involvement of women in the applicant concern. A woman must hold the highest ranking in the organization.

The woman or women shall control the Board of Directors of the applicant concern, either in actual numbers of voting directors or through weighted voting. Men may be involved in the management of an applicant concern, and may be stockholders, partners, officers, and/or directors of such concern. However, these men may not exercise actual control or have the power to control the applicant concern.

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## **FRANCHISE AND LICENSE AGREEMENTS**

**In determining whether the franchisor controls, or has the power to control, the restraints relating to standardized quality, advertising, accounting format and other provisions, imposed on a franchisee by its franchise agreement shall generally not be considered, provided that the franchisee has the right to profit from its efforts and bears the risk of loss commensurate with ownership. Even though a franchisee may not be controlled by the franchisor by virtue of such provisions in the franchise agreement, control could arise through other means, such as common ownership, common management or excessive restrictions upon the sale of the franchise interest.**

## ***RATIONALE***

**The late Gillian Rudd, in introducing the National Foundation for Women Business Owners/Cognetics study of women owned businesses, stated**

**"The 1992 Presidential initiative to improve this country's economic statistics omits any mention of one of the fastest growing segments of the economy, women business owners. Federal economic statistics are numbers that move the economy nationally and internationally. It is vital to policy makers, the business community and researchers that these statistics be of the highest quality and provide a true reflection of today's economy. To ignore women-owned businesses is to neglect one of the decade's major social and economic changes."**

**Current data from a variety of sources indicates that an astounding growth is taking place in women-owned businesses—that they are a far larger factor in our economy than is generally realized, anywhere from thirty to forty per cent of all businesses in this country. Yet there cannot be an accurate count without a generally accepted definition of what constitutes a woman-owned business.**

**At both the Denver hearing on telecommunications and the Arlington, Texas hearing on high technology, women business owners talked of their frustration in identifying and qualifying for government set-asides and incentives to small and disadvantaged businesses. Even federal agencies are not consistent in their definitions, and each state develops its own guidelines. The federal government can and must set a standard for both data collection and procurement purposes.**

**The Missouri Pilot Study which the Council commissioned was designed to assess the possibility of complete and accurate data collection regarding women-owned businesses. This study did indeed provide a useful model for such studies which can produce accurate data on a national level, data eagerly sought by both government and private entities. In order to complete this study, a specific definition of "woman-owned" had to be devised. That definition is reflected in this recommendation, and in the regulations currently being promulgated by the U.S. Small Business Administration.**

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## **RECOMMENDATION #2**

### ***Stimulating Bank Lending***

In recognition of the critical role played by small businesses in the economic structure, and the increasing importance of women-owned small businesses in that structure, we urge the President and Congress to act to stimulate bank lending as follows:

- A. The National Women's Business Council recommends that the banking regulators revise the FIRREA regulations to provide preferential risk weighting for those portfolio loans provided to women-owned (as defined in Recommendation #1) or minority businesses whose borrowings are greater than the Small Business Administration's qualified loan limits and less than the sum of \$5 million.
- B. The National Women's Business Council recommends that Congress enact the necessary legislation to facilitate the creation and operation of a secondary market for securitized "small" business loans with consideration for enhanced guarantees on loans to women and minority owned businesses.

## **RATIONALE**

The resounding unanimity of feedback with which the National Women's Business Council was met during the Federal Reserve-hosted Access to Capital Symposium in Washington, D.C. in September, 1992 confirmed that the greatest barrier to woman-owned small business growth and development is lack of access to capital. This barrier is most severe for those women business owners who have established and grown their enterprises to reasonable proportions. They find themselves beyond the size at which the U.S. Small Business Administration programs are appropriate and below the size at which venture capitalists become interested. Specifically, these are businesses whose needs for additional capital range from \$1 million to \$5 million.

Lending in these ranges is clearly the domain of the banking industry. It is the position of the National Women's Business Council that bank lending should reflect prudent practice, unencumbered by legal regulatory constraints whose definition or administration make unattractive the inclusion of viable small business loans in the bank's lending portfolio.

*A November, 1992 study of small and mid-sized businesses sponsored by Arthur Andersen's Enterprise Group and National Small Business United reported that a total of 24 percent cited "cutting regulations" as the number one task for the new administration and Congress, and almost half of these named easing of bank regulations to improve access to credit as their top priority.*

#### **FIRREA AS A DETERRENT TO LENDING**

A critical deterrent to bank lending for emerging businesses is represented in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) legislation which defines the financial health of banking institutions in terms of risk rated capital ratios. Specifically, banks must allocate valuable capital to portions of their lending portfolios based upon the perceived risk these loans represent as defined by the regulatory community.

At the NWBC's Symposium on Access to Capital, bankers testified to the dampening effect of the FIRREA regulations on their ability to grant small business loans, particularly to women and minorities. Changes in these regulations were cited universally as a necessary step in making capital available to these groups.

The major recommendation to come out of this symposium involved allowing banks to price for risk so that they can make loans to women-owned businesses which often do not fit the standard profile for traditional funding sources. (A more complete review of the results of the Access to Capital Symposium is included in this annual report.)

One area banker's comment was telling:

" . . . and we don't need more regulation, for god's sake. We're regulated to death. And if we continue to get regulation, we're not going to have any latitude in making independent decisions on these loan requests."

His remarks were backed up by another panelist, who cited banking industry estimates that it spends more than \$10 billion annually on regulatory compliance—59 percent of the profits of the entire banking system in 1991!



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## **SECURITIZATION AS AN INCENTIVE TO LENDING**

One of the three key problems in obtaining capital for women-owned businesses cited by the experts at the Symposium was the lack of availability of loan sources in mid-range, between the very small loans and the level of venture capital. Because women business owners tend to be concentrated in small businesses with relatively low funding needs and in industries lacking traditional collateral (See report on the Missouri Pilot Study, Page 20) they tend to be unattractive to lenders.

Funding the development of these and other small businesses would be greatly facilitated through the provision of a secondary market, making capital available through a national reservoir. As banks attempt to meet the lending needs in their individual communities, they will be better able to provide long term commitments to developing businesses through the securitization of small business loans whose subsequent sale to institutional investors will free bank capital and make additional funds available for investment in local communities.

Allowing financial institutions to operate as conduits delivering available funding to small businesses, without having to portfolio these loans, will not only bring more capital to developing businesses but will mitigate the risk to the banking industry associated with non-diversified portfolios.

### ***RECOMMENDATION #3***

#### ***Securitization of Small Business Loans***

The small business growth cycle includes a third and final stage in which the business has evolved to the point at which its requirements for capital are insufficient to attract the attention of venture capitalists, but beyond the level at which community banks can address these funding needs.

The National Women's Business Council recommends that in enacting the previously recommended legislation to facilitate the creation and operation of a secondary market for the securitization of small loans, the parameters established for defining these loans be sufficiently broad so as to include those businesses whose asset values may be as high as \$18 million and whose annual net income may be as high as \$6 million.

## ***RATIONALE***

Venture capital specialists who have participated in the Council's recent hearings and in the Symposium on Access to Capital have been blunt. Women-owned businesses, even those few seeking capital at the level which might interest venture capital sources, rarely fit the profile of the few ventures funded each year. For the larger woman-owned business, alternative financing options must be sought.

### **GENDER BASED DIFFICULTIES—NON-GENDER SPECIFIC NEEDS**

Women in both high technology industries and telecommunications who actually had found funding in the \$6 to \$18 million range told of difficulties which seemed far beyond what should be expected for companies with records of successful and profitable operation. At this top level of small business as well as the start-up level, women do not fit traditional, comfortable profiles, and compete less successfully for scarce expansion dollars. Those who have succeeded demonstrate remarkable tenacity as well as top level professionalism.

At earlier stages in the business growth cycle women tend to seek and achieve lower levels of funding, and appear to succeed with less start-up and expansion money. (See the report on the Missouri Pilot Study, Page 20, and the results of the Special Focus Groups, Page 28.) At this stage, however, that is not possible. Financing needs of the mid-sized business seeking capital are not gender-based—a woman-owned firm cannot get by with less.

### **BROADER BENEFITS**

Providing funding to these businesses, whether woman-owned or not, can be a complex process. A secondary market for loans granted to businesses in this category will provide the essential momentum for the businesses to grow to the point of recognition in the venture capital, regional banking and national banking arenas. This was also a recommendation of both the 1980 and 1986 White House Conference on Small Business. The benefits of small business loan securitization will accrue to all small businesses, and thus to the economy as a whole.

## ***RECOMMENDATION #4***

### ***Federal Procurement Standards***

- A. The National Women's Business Council strongly urges that Congress mandate action by all federal agencies to set prime and sub contracting goals for women-owned businesses.**

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- B. The National Women's Business Council strongly urges Congress to expand the current Department of Defense section 1207 set-aside authority to the civilian agencies that have been required by law to increase their contracts to women-owned businesses.**

### ***RATIONALE***

Today, the U.S. Small Business Administration estimates that over one-third of all U.S. businesses are woman-owned. Despite this, only 1.5% of all federal procurement dollars are awarded to woman-owned businesses. This dramatic inequity is perpetuated by the lack of legislative mandates that specifically target women-owned businesses for assistance in entering the federal procurement system. The U.S. Small Business Administration has taken the lead in interpreting the Congressional data collection requirements as a basis for requesting goals from all federal agencies for prime and sub contracts awarded to women-owned businesses.

The Department of Transportation was until recently the only federal agency which designated women as disadvantaged business owners on a par with minorities for purposes of their state grant programs. In addition, Congress recently passed laws with language specifically including women-owned businesses in the targets they set for small and disadvantaged business participation. Specifically, the Department of Energy, NASA and EPA have all received these directions, but without the tools to target women-owned businesses. In other words, the language did not clearly include set-aside authority for women-owned businesses; the set-aside authority these agencies have to meet these new goals is primarily under the 8(a) program—where women are not a designated group.

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## **1992 - A YEAR OF ACHIEVEMENT**

This year's recommendations to the President and Congress were based on a full program of hearings and data collection, as summarized in the following brief report.

### **THE SYMPOSIUM ON ACCESS TO CAPITAL— SEPTEMBER, 1992**

The investigations of the NWBC over the past four years have indicated that the most pervasive barrier to success for women business owners is lack of access to capital; the Council decided to take a hard look at the realities of the capitalization picture for women-owned businesses today and in the future and at the same time stimulate creative thinking by the experts on solutions to the problem.

The Access to Capital Symposium brought together experts in banking, venture capital, microloan programs, and government and private programs with Council members, SBA representatives and selected women business owners in a discussion designed to develop proposals for ensuring access to capital for women business owners.

### **RESULTS**

Symposium participants identified three specific solutions to the problem of access to capital which they proposed for government and private sector action:

1. Changes in banking practices including more unsecured credit, allowing banks to price for risk so they can make some of these loans, better use of contract financing and accounts receivable funding.
2. Increase the number and types of lending pools/funds, including public/private partnerships and joint ventures.
3. Allow banks special categories for small business loans (or high risk small businesses).

In addition, it was proposed that the Federal Reserve hold regional symposia on access to capital in each of their regions. The Board of Governors of the Federal Reserve have agreed to host such programs, and they are expected to commence in the third quarter of 1993.

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## **THE MISSOURI PILOT STUDY**

The NWBC mandate includes the review of data collection procedures and the availability of data on women owned businesses. The lack of accurate and complete data of this type led the Council to select as one of its major projects the completion of a research pilot which would provide guidance to public and private sector organizations in selecting a methodology for collecting demographic and attitudinal information on United States women business owners.

The state of Missouri was selected by the NWBC and the SBA's Office of Economic Research for use in this pilot test. The premise of the proposal was that creation of a reliable sample in a typical state could then be used as a model for a national sample of women-owned businesses.

### ***END PRODUCT/CONCLUSIONS***

Two reports were produced from this investigation; a methodology report and a set of tabulations that describe the demographic characteristics and financial history of the study participants. The final product of the methodology portion is a manual which gives a complete picture of how the experiment was done, along with the implications for a national study. This manual could be handed to a statistician as established guidelines for creating an accurate sample and estimating the cost of creating such a sample.

### ***FINDINGS***

The findings of the study are cited in detail in the Annual Report, and in depth in the Pilot Study Report, available in the NWBC office.

The results of the State of Missouri pilot project lead the Council to place a high priority on the following future activities:

1. That the National Women's Business Council work with the appropriate public and private sector organizations to implement ongoing national survey research on women business owners at regular intervals.
2. That the methodology handbook created by the National Women's Business Council pilot study be given wide distribution in the public and private sectors to assist in the creation of a reliable sample for national survey research.
3. That focus group, executive interviews and experimental research be considered to further explore certain findings of both the National Women's Business Council pilot and focus group projects, e.g., length of time in business, gender differences, access to capital and related funding issues.

When the Council accepted the challenge of developing a model for accurately surveying women-owned businesses, they recognized that no matter how complete a pilot study they commissioned, there would be areas which could not be tested through ordinary survey research. Examination can be done, however, through the use of focus groups which, although they do not produce scientifically provable data, offer good insights into the range of responses accessible through research, and can be invaluable both in analyzing data from broader studies and in planning future narrower-based studies.

Women business owners are no more a homogenous group than men business owners, but in addition to specific industry, the Council finds there is one clear method of logically categorizing them--into start-ups (less than five years old), mezzanine or mid-range businesses looking for growth capital and opportunities, and successful, well-financed enterprises.

Businesses in the first category, start-ups, are rarely measured by the usual survey methods--partly because they are harder to find. Some research is available on start-ups in general, but there is no gender-specific data available, making this an ideal topic for focus group exploration.

The four focus groups were held in St. Louis and Springfield, Missouri in September, 1992. Participants were women from a broad range of home-based, retail, wholesale, service and agricultural businesses. Most had been in business from one to three years.

### **RESULTS**

If the Missouri focus groups present an accurate picture, the average woman at this stage in her business thinks of herself as a risk-taker, regrets not having done more market research, likes the freedom and sense of self-respect she has achieved, didn't go into this to get rich, is concerned about financing growth and thinks the SBA has very little to offer. She sees traditional male operating styles as the barrier to progress in the workplace, and attracting, recruiting and keeping reliable employees as the biggest problem in running her business.

Previous studies of women-owned businesses appear to show women starting with much lower levels of funding and expanding more slowly. Obviously lack of access to capital is the primary reason for this, but in this focus group as well as in other investigations there appears to be a difference not in attitude toward business or ambition, but in terms of expectations. Women entrepreneurs appear to set lower goals, and have lower income expectations and lower estimations of funding needed for start-up or expansion. Further study should be done to assess this pattern.

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## **DIRECTORY OF STATE PROGRAMS TO ASSIST WOMEN BUSINESS OWNERS**

Although the Office of Women's Business Ownership at SBA and the National Association of Women's Business Advocates (NAWBA) had gathered some information, there had never been a complete directory of state programs, set-asides and services for women business owners. The Council completed the research for such a directory, the first edition of which was published in 1992 with the cooperation of NAWBA and Entrepreneur Magazine.

To obtain copies of or information concerning the directory, contact:

Melody Borchers, President  
National Association of Women's Business Advocates  
c/o Ohio Department of Development  
777 South High Street  
Columbus, Ohio 43266-0101

### **WOMEN ENTREPRENEURS IN TELECOMMUNICATIONS— DENVER, MARCH, 1992**

The Council met in Denver on March 16, 1992 to explore opportunities for women in the telecommunications industry. They heard testimony from business owners, financial experts, government officials, academics and others involved in the telecommunications industry. The following is a brief summary of the testimony.

Telecommunications offers women the opportunity to participate as equals in an integrated industry: Unlike traditional male-dominated sectors of the economy, this rapidly expanding industry offers abundant opportunity for anyone with the ideas, products and skills to build a business. Many women are bypassing the management "glass ceiling" by moving directly into ownership in one of the many telecommunications fields.



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### ***IMPEDIMENTS TO WOMEN IN TELECOMMUNICATIONS***

While increasing numbers of women continue to enter the telecommunications industry, there is still a marked lack of women with the technical and managerial expertise—plus length of experience—to start a successful telecommunications business. Second, there appears to be no information networks currently established for women entrepreneurs which can provide advice and support from other women. Third, access to capital is extremely difficult. This is a capital-intensive industry, generally requiring a substantial start-up investment. Sources of capital are limited, partially due to the risk factors involved, and women business owners are less likely to know where to look for capital.

### ***THE EXPERT ROUNDTABLE***

The Denver hearing was followed by an expert roundtable discussion on prospects for women business owners in the telecommunications industry in which twenty-nine men and women participated.

In addition to the members of the National Women's Business Council, they represented government, academia, banking, venture capital firms, the media and a variety of large and small telecommunications firms. Several were women business owners.

Discussion centered on two topics: 1) defining tomorrow's telecommunications marketplace, and 2) pre-planning to allow women equal access to this marketplace.

The expert group's recommendations were as follows:

1. Promote the formation of entrepreneurial development funds with tax breaks similar to those of foundations, as well as grant programs and joint ventures in which large companies nurture small and emerging businesses.
2. Generate public policy initiatives encouraging corporate incubation of small businesses for the purposes of training, support and mentoring.
3. Develop networks and associations that bring together women involved in telecommunications for the purpose of exchanging ideas and information about their experiences in telecommunications. Through these networks a program of technical assistance partnerships can be developed.

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## ***A PLAN FOR THE FUTURE***

1993 will be a year of change and a year of growth for women-owned businesses as the economy improves and sources of capital open up for women as well as business in general. Barriers to progress still exist, however, and many of the changes required to remove those barriers have not taken place.

1993 will be the final year of the Council's original five-year mandate. In addition to further development of the Council's studies and programs on the issue of access to capital, and a continuing focus on improved access for women to the government procurement process, the Council will look beyond our borders at opportunities for U.S. women business owners in the global economy.

The goals of the Council's mandate will not all be achieved by the end of 1993. The following activities may not all be completed within that time frame, but are priorities on the Council agenda.

- A hearing on opportunities for women in trade with Latin America and the Pacific Rim, to be held in March, 1993.
- Regional Symposia on Access to Capital under the sponsorship of the Federal Reserve.
- A Women's Economic Summit, tentatively scheduled for September, 1993.
- Efforts to ensure maintenance and expansion of the National Directory of State Programs for Women Business Owners.
- Development of a joint strategic plan with the members of the Interagency Committee on Women's Business Enterprise, which we hope will be reactivated under President Clinton.
- Follow-up on the further studies suggested by the results of the Missouri Pilot Study and focus groups.

# **FINANCING THE BUSINESS**

**A Report on Financial Issues  
from the 1992 Biennial Membership Survey  
of Women Business Owners**

**Prepared By:**

**The National Foundation for  
Women Business Owners**

*The National Foundation for Women Business Owners is the National Association of Women Business Owners' non-profit research, leadership development and entrepreneurial training foundation. Its mission is to support the growth of women business owners and their organizations through the accumulation and sharing of knowledge.*

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## **FOREWORD**

Despite an economy recently characterized by slow economic growth, women-owned businesses are making dramatic strides in the nation's business community. By the end of 1992, the more than 6.5 million women-owned businesses in the United States were estimated to employ more people than the Fortune 500 companies combined.<sup>1</sup>

The 1992 National Association of Women Business Owners (NAWBO) Biennial Membership Survey<sup>2</sup> has uncovered some of the many avenues through which women-owned businesses are a powerful and expanding economic force. This report is a summary of one facet of that survey: the sources and types of financing used by women business owners.

The results of this survey demonstrate that, despite the significant growth seen in recent years among women-owned businesses, women business owners still face barriers in identifying and obtaining the financing necessary to operate and expand their businesses. Even given the successful and stable track records of women-owned firms, many of the women surveyed report serious concern about a range of financial issues. These issues and concerns will be explored in this report.

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<sup>1</sup> Source: Women-Owned Businesses: The New Economic Force, a data report published by the National Foundation for Women Business Owners, 1992.

<sup>2</sup> The 1992 Membership Survey of Women Business Owners was conducted for the National Association of Women Business Owners by the National Foundation for Women Business Owners, and was sponsored by leading corporate supporters AT&T and IBM.

## **WOMEN-OWNED BUSINESSES: THE NEW ECONOMIC FORCE**

Women-owned businesses are becoming an increasingly powerful economic force in the United States and an increasingly visible and powerful part of the marketplace, today employing more workers than the Fortune 500 companies combined.

The 1992 NAWBO membership survey clearly illustrates the expanding economic force of women-owned businesses. The survey found that women-owned businesses:

- boosted employment – 25% added employees in the past year;
- increased sales – 57% had increased sales over the previous year, with 23% of those surveyed reporting gross annual sales of over \$1 million;
- are not a new phenomenon – three-quarters (77%) have been in business more than 4 years and 29% have been in business over 11 years.

1992 was a year of growth and expansion for women-owned businesses, even in the face of a slow national economy:

- 46% developed a new product or service line;
- 32% increased expenditures for equipment;
- 26% expanded into new domestic markets, 7% into new markets abroad.

Women business owners extended their optimism into the future as well:

- 66 percent expected sales to increase in 1992 over 1991 levels;
- 33 percent expected to add employees in 1992.

While women-owned businesses have shown significant growth in recent years and exhibit the potential for even greater growth in the future, they face financial barriers which could impede that growth. The availability of capital was cited by women business owners as one of the most significant barriers to their business' growth, second only to the "economic environment." Nearly four in 10 women business owners (39%) pointed to availability of capital as the most significant barrier to growth.

Business financing is thus one of the major issues that women business owners, public policy makers, and the financial community alike must address. Removing the barriers to access to capital is one of the surest ways to encourage growth not only among women-owned businesses, but all small businesses.

## **FINANCIAL PROFILE OF THE WOMAN BUSINESS OWNER**

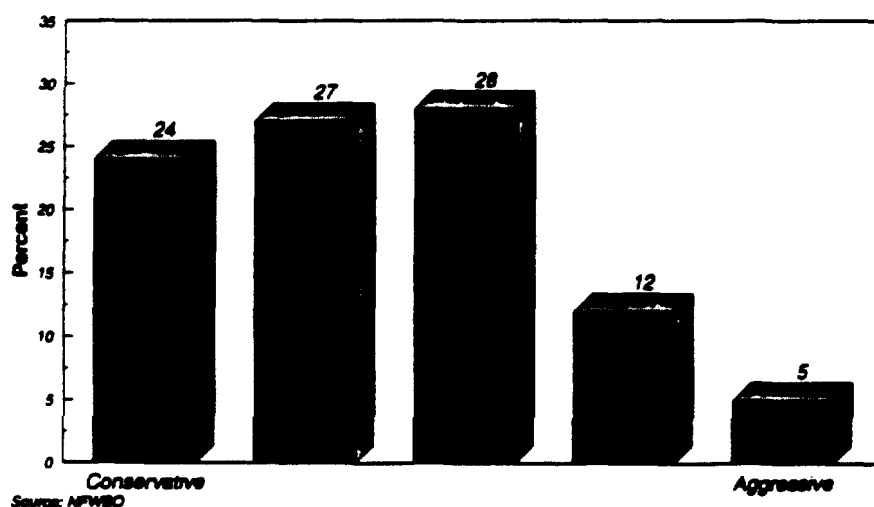
Women-owned businesses are represented throughout the economy – in the business and professional services and retail trade sectors, as well as in manufacturing, finance/insurance/real estate and construction.

Other NFWBO research has shown that women-owned businesses grow somewhat more slowly and steadily than businesses at large. The NAWBO membership survey finds that women business owners tend to describe themselves as financially conservative in the management of their businesses, which would tend to promote a pattern of slow, steady growth over one of cyclical ups and downs.

When asked to describe their current financial policy on a scale of 1 (conservative/risk averse) to 5 (aggressive/highly debt tolerant), women business owners average 2.45.

Fully 51% rate themselves on the conservative end of the spectrum (1 or 2), 28% say they are in the middle, and only 17% classify themselves as financially aggressive (4 or 5).

### **Self-Described Financial Policy of Women Business Owners**





## MAJOR FINANCIAL BARRIERS

As previously indicated, the most serious self-described barrier to growth among women-owned businesses, next to overall economic conditions, is the availability of capital – and fully two-thirds of women business owners report difficulties in working with their financial institutions. In fact, **women-owned businesses are 22% more likely to report problems dealing with their bank than are businesses at large.**<sup>3</sup>

The most common complaint women business owners have in working with their banks in order to obtain financing is the need for more assets (28%) and greater collateral (23%), followed by a limited track record (22%) and the limited experience of banks in dealing with service businesses (21%).

The attitudes and practices of loan officers are another significant financial barrier to women-owned businesses. A surprising 20% of women business owners reported that their loan officer insisted upon their spouse's signature in order to obtain a loan, and another 14% believe that the mere fact that their business was woman-owned was an impediment to obtaining financing. **Thus, fully one-third of women business owners perceive some degree of gender-based discrimination.**

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<sup>3</sup> Two-thirds (67%) of NAWBO survey respondents cite barriers encountered when working with their bank, while a lesser 55% of all small to medium-sized firms report difficulties in obtaining financing. The latter figure (and all other comparative figures cited in this report) is obtained from a 1992 survey of firms with less than 500 employees conducted for National Small Business United and Arthur Andersen's Enterprise Group by The Gallup Organization. See Survey Results of Small and Middle Market Businesses: Attitudes, Issues, and Outlook, Arthur Andersen & Co., SC and NSBU, July, 1992, p. 10.

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